



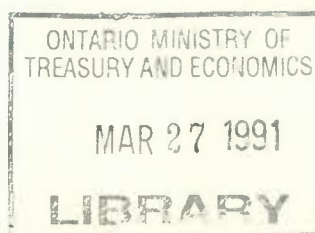
AU COURANT

Economic Council of Canada

Volume 11, No. 3, 1991

SPECIAL FEATURE
IMMIGRATION

New Faces in the Crowd



- Canadian productivity
- Structural change and adaptation
- The economic union of Canada



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Some encouraging signs



Judith
Maxwell

When the Council launched its study of immigration two years ago, we felt it was time to update our knowledge of the economic and social effects of immigration to take account of the potential impact of an aging population. We strongly suspected, after looking at work done in other countries, that the economic impacts of immigration would turn out to be modest.

We were also convinced that the changing mix of immigrants raised important issues to do with social harmony. We noted that the United Kingdom found that open-ended immigration from the Commonwealth without successful integration of the newcomers could lead to social conflict. And we knew that Canada's history with respect to the treatment of visible minorities was not all that reassuring – for many years they simply were not accepted as immigrants.

In fact, the research reported in the Council Statement *New Faces in the Crowd*, shows that the economic effects of immigration on the host population of Canadians are small, but they are positive. The results on the social side provide some favourable surprises.

We found, for example, that members of visible minorities who immigrate to Canada and receive most of their education here earn the same levels of income over time as similarly qualified people of European origin in the same age group who were born here in Canada. On the other hand, newcomers whether from a visible minority or not, who receive their education abroad experience a period when incomes are below those of Canadian-born in the same age group, but the newcomers do eventually catch up. Thus we find strong evidence that immigrants are successful whatever their origin: they do well economically and they appear to integrate well.

There is also definite evidence of increasing tolerance for people from different ethnic origins over the past 15 years – the very period when the proportion of visible minorities in Canada has been rising. This is especially remarkable

when you think that the past 15 years have not been a time of great prosperity for most Canadians. Real wages have not increased, on average, and there have been relatively high rates of unemployment throughout the period.

While the message is generally good news, the Council Statement approaches the policy choices with some caution because the social results do provide some warning signals. Tolerance is likely to be lower in communities experiencing economic hardship in the form of high unemployment, or in communities where the proportion of visible minorities is rising quickly.

Thus, the Council argues that immigration levels should rise, but slowly, that immigrants' success in integrating should be reviewed every five years, and that research on social issues, particularly on the reaction of minority groups, should be done soon and then repeated regularly. The Council also insists that a major commitment to combat racism is essential. Such a commitment cannot be legislated, it has to reflect the political will of all the parties to the process – governments and citizens.

We have identified a genuine Canadian asset – social tolerance. We must make sure that we preserve and enhance it.



New faces in the crowd

In recent years, immigration has been moving to the centre stage of public debate. One thing is certain: the subject is highly controversial.

It is also extremely complex. Despite the multitude of factors involved, it is often difficult to identify exactly what those factors are. Frank and open discussion, especially about visible minorities, often seems inhibited by the fear of being accused of racism.

Somewhat like a curved mirror, the image of immigration is perceived differently by different people. Some see a long list of advantages, ranging from economic to cultural and humanitarian. They point to the role immigrants have played in the country's development and suggest that immigration is one way to counter Canada's declining birth rate and aging population, two trends with potentially enormous consequences for social and health-care costs.

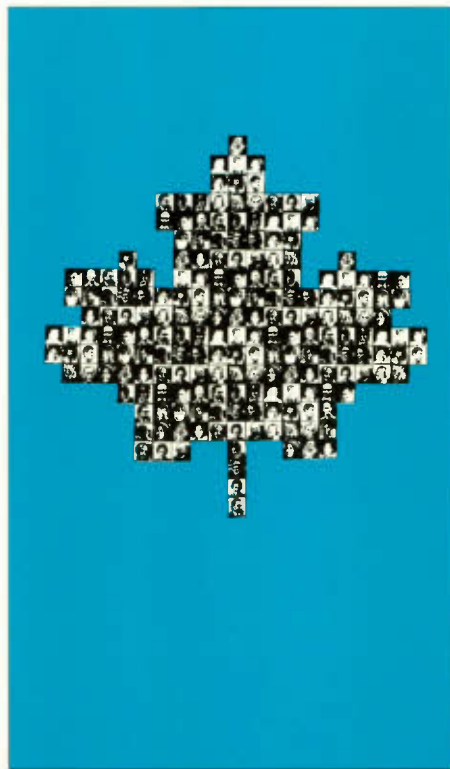
Other Canadians, looking into the same mirror, are worried that immigration will lead to the erosion of Canadian traditions and values. They have difficulty seeing the claimed advantages of cultural diversity and multiculturalism. Others are convinced that immigrants steal jobs from Canadians or that they lower wages and working conditions. They are also uneasy about the rising short-term costs of immigration at a time when government deficits are becoming alarmingly large.

To complete the picture, it should be recalled that during the 1980s Canada accepted 1,250,000 immigrants, many of whom settled in the country's major cities. About one third were of European origin, while the majority hailed from Asia, Africa, Latin America, and the Caribbean. The number of people claiming refugee status has also grown steadily.

It is against this backdrop that the Economic Council undertook to examine the impacts of immigration on Canada.

A gradual increase in immigration

In its Statement entitled *New Faces in the Crowd*, in which the primary economic, social, political, and humanitarian factors in the immigration debate are analysed, the Council concludes that the



economic consequences of immigration are positive but quite small. On the more specific question of unemployment, the Council asserts that there is no correlation between immigration levels (or, in fact, even the size of the country's population) and unemployment levels. The research findings are very clear on this point. As long as immigration levels – whether they be high or low – are stable, immigration does not create unemployment.

Consequently, says the Council, it is essentially on humanitarian and social grounds that Canada should decide to opt for increased immigration. This leads to its first and most important recommendation: that the immigration rate be raised gradually to 1 per cent of Canada's population by the year 2015.

The Council stresses, however, that the increase should be gradual and carefully implemented in order not to aggravate social friction; since, despite an apparent increase in racial tolerance of visible minorities, the potential for such a flare-up persists in Canadian society. In addition, a too-rapid increase in immigration at a time when unemployment is high could provoke a backlash against immigrants in general, because of a mistaken

perception that immigrants take jobs away from Canadians.

Although it is very difficult to measure the benefits of ethnic and cultural diversity, the Council comes out in favour of such diversity, judging that it helps make Canada a more interesting and exciting society. From the humanitarian point of view, immigration makes it possible for people to escape from sometimes desperate economic, social, and political straits, or at least to effect substantial improvement in their living standards and to vastly improve the future prospects of their children.

Moreover, when economies of scale and future tax and dependency effects are taken into consideration, almost all immigrants who arrive in Canada create a slight economic gain for the host community, relative to the cost involved in accepting them.

"It would be hard not to recommend an increase," states the Council's report, "when immigrants can gain so much and when Canadians not only do not lose but actually make slight economic gains."

Overall, then, considering all aspects of Canada's current situation, social and humanitarian factors justify making the country more open to immigrants.

One of the Council's conclusions is heartening: research indicates that Canadian's tolerance for immigration has grown in recent years. And tolerance appears to be greatest in areas where immigrants, including visible minorities, are most numerous. That observation seems to confirm the "contact" hypothesis, which suggests that familiarity breeds acceptance and more positive attitudes among the various ethnic groups. These results, says the Council, are most encouraging, although there is still reason for prudence.

As mentioned earlier, immigration will increasingly alter the face of Canadian society, because in contrast to the situation in the early part of this century, new arrivals no longer hail predominantly from Europe, but rather from Asia, Africa, the Caribbean, and Latin America. They are increasingly what are called "visible minorities," and the trend will almost certainly continue.

At the present time, in Canada about one person in 20 is of non-European origin. Even if immigration rates stay the



same, this proportion will reach one in 10 nationally in the next 25 years. The proportion will be higher still in major urban centres like Toronto, and Vancouver where about 20 per cent of residents will be of non-European origin.

The Council also takes pains to dispel a number of myths: that immigration is the solution to our aging population, or a ready-made answer to our declining birth rate, or the cornerstone of economic prosperity.

The economic prosperity enjoyed by a country does not necessarily have anything to do with its demographic size. In other words, there is no proof that a larger population automatically generates higher average per-capita incomes.

So while immigration likely does confer some gross benefits on the Canadian population as a whole (in the form of the efficiency gains from a larger domestic market), these benefits can only be very small when measured in terms of each individual in the host community.

Although immigration clearly played an important role in Canada's earliest years, it is a mistake to think that Canada's survival depended on it. By the time of Confederation, immigration had subsided substantially: the population pump was already primed, and immigration subsequently played only a small part in population growth in eastern Canada. There was a short-lived but large burst of immigration as the West was settled, between 1900 and 1914. Between the two world wars, however, immigration declined once more, making hardly any contribution to demographic growth. Although immigration intensified after the Second World War, it was not nearly as important for total population growth as natural increase. In fact, the history of immigration in Canada is characterized more by several distinct waves than by a sustained inflow.

A target of 1 per cent

As was noted earlier, the Council's first recommendation is to increase immigration gradually above the average levels of the past 25 years, to bring the number of new immigrants to 1 per cent of the population on a gross basis by the year 2015.

While acknowledging that increasing the proportion of visible minorities carries some risk, "human nature being what it is," the Council believes that this risk is minimal provided that two conditions are respected:

- the increases in immigration are gradual; and
- the unemployment rate is not too high when the increases occur.

What does the Council's recommendation mean in terms of actual numbers?

In the past 25 years, gross immigration has averaged 0.6 per cent of the population. The Council suggests a gradual expansion in immigration. In concrete terms, that means 168,000 immigrants in 1991, 174,000 in 1992, 180,000 in 1993, and so on, eventually reaching 340,000 in 2015.

This position differs from recent proposals by Employment and Immigration Canada (EIC). That department proposes that the recent high rates of immigration be maintained until 1992, after which the influx of immigrants will remain stable until 1995. The government has so far not revealed its plans for immigration rates after that date.

The levels recommended by the Council begin lower, but continue climbing right up to 2015.

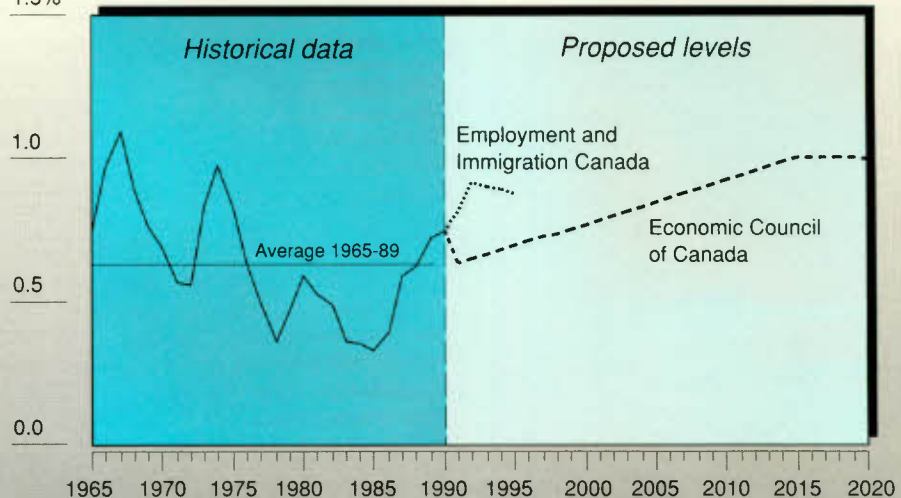
According to the Council, the EIC plan moves ahead too quickly. It argues that a longer-term perspective is needed. That is why the Council's projections are based on the average level of the past 25 years, not on last year's level. Increases of the magnitude contemplated by EIC would result in too large a 10-year increase over the 1985-95 decade, thereby running the risk of exacerbating social problems and creating temporary increases in unemployment. The risks inherent in the Council's proposal are significantly lower, and the Council also proposes that the situation be reassessed every five years to see how well immigrants are adjusting to Canadian society.

Two other important recommendations by the Council are noteworthy. In accordance with the principle that immigrants and native-born Canadians have mutual responsibilities, the Council proposes that a "moral contract" be instituted between Canadians and the immigrant population, in order to crystallize the mutual obligations of the two groups towards each other. And in order to maintain and reinforce the heartening decline in prejudice in recent years, the Council recommends mounting a major strategic initiative to combat racism and foster tolerance.

Gross Immigration in Canada, 1965-89 (Historical Data) and 1990-2015 (Proposed Levels)

Proportion of population

1.5%





Tolerance: "cautious optimism"

The tolerance of Canadians for immigrants and visible minorities is reasonably high and it is improving, offering grounds for "cautious optimism" about the future.

That is one of the major findings of the Economic Council in its analysis of the social consequences of immigration, the results of which are detailed in its State-ment entitled *New Faces in the Crowd*.

As positive as its research results are, however, the report does not conclude that racial prejudice has been reduced to an acceptable level. The Council thus urges Canadians to take greater notice of these issues when developing policy and recommends more direct action to combat prejudice.

The social impact of immigration is, acknowledges the report, much harder to calculate than the economic impact, for obvious reasons.

For this phase of the project, the Council's experts undertook a detailed analysis of the results of most of the major nationwide opinion surveys on public attitudes towards minorities carried out over the past 15 years.

The "contact" hypothesis

One of the most important results to emerge was that respondents from communities with higher proportions of visible minority immigrants were, in fact, more likely to be tolerant of racial or

ethnic differences. Proximity and contact with different cultures appear to reduce apprehension and encourage acceptance. The research revealed, for instance, that the proportion of residents of a community who are not themselves members of visible minorities groups and who tolerate interracial marriage, grows as the proportion of visible minorities living in that community increases.

It was also clear, however, that any sudden, rapid growth in the proportion of visible minorities would have a negative impact on attitudes towards them.

Trends over time

Another key finding was that trends over time indicate diminishing levels of prejudice and increasingly positive attitudes as contact with immigrants increases. The only exception was in Quebec, where there was an increasing tendency for francophone respondents to feel that there was "too much immigration" despite an improvement over time in their tolerance of visible minorities. The Council stresses, therefore, that unfavourable attitudes towards increased immigration are not necessarily related to prejudice and indeed do not appear to be so-related in Quebec.

The Council also notes that Quebec's cultural policies have been changing. It recalls that multiculturalism has had a negative press in Quebec because it ap-

peared to undermine Canada's historic cultural duality, and because federal multicultural programs have not always respected Quebec's unique character as a francophone society. In the Council's view, Quebec's approach is more integrationist than assimilationist, despite public perception to the contrary. It is Quebec, after all, that developed the idea of an explicit "moral contract" between immigrants and native-born Canadians (see the article entitled "Towards a moral contract," p. 11).

The Council also commissioned a special experimental study to provide data on discrimination trends over time. The study, which replicated a 1985 examination of employment discrimination in Toronto, had two parts. In the first instance, actors portraying equally qualified blacks and whites applied for the same job within an hour of each other. The second component involved telephone calls to employers in an attempt to obtain job interviews.

The in-person interview part of the 1985 study found whites favoured over blacks for job offers by a 3 to 1 margin. The telephone conversation part showed discrimination against callers with an accent, particularly West Indians and Indo-Pakistanis.

The 1989 replication showed a clear change. There was no discrimination in the in-person job offers. The telephone part of the survey had results similar to the 1985 study, however, with less favourable treatment accorded to accented callers.

These results indicate that prejudice diminishes as the visible minority population grows. It reinforces the Council's broad finding that there is a growing acceptance among Canadians of immigration generally and visible minorities in particular. This leads the Council to issue a "cautiously optimistic" prognosis about the tolerance of Canadians.

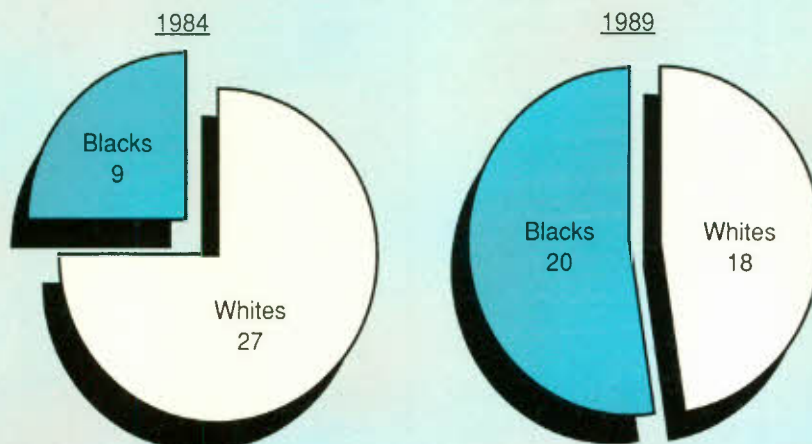
Immigrants

The Council also investigated the economic behaviour of immigrants with the aim of clarifying some of the many common beliefs and opinions about their economic performance.

It should be realized, first of all, that in 1986 approximately 16 per cent of

Job Offers to Blacks and Whites, 1984 and 1989

Field test results in Toronto





Canada's 25 million people were of immigrant origin – roughly the same proportion as since 1951.

Partly because the majority of immigrants came to Canada as young adults (average age, 27.1 years), and partly because many arrived too recently to have yet retired, their average dependency ratio (the proportion of those aged 14 and under and aged 65 and over) is much lower than native-born Canadians. In 1986, the dependency ratio was 28 per cent for immigrants and 50 per cent for native-born. Family size and male-female proportions were similar between immigrants and native-born. One significant difference worth noting is that more immigrants (77.5 per cent) were living in the larger urban areas compared to persons born in Canada (46.5 per cent).

In 1986, the labour force participation rate among immigrants (those in the total population working or looking for work) was just slightly smaller (76.4 per cent) than the Canadian-born rate (77.7 per cent).

Comparing the unemployment experience of immigrants and native-born Canadians shows that, in 1986 once again, immigrants had lower unemployment rates (8.2 per cent) than their Canadian-born counterparts (10.8 per cent). Longitudinal studies show that the unemployment periods experienced by recently arrived immigrants were generally rather short, even during their first year of arrival. Even refugees appeared to find employment relatively quickly.

Following in the footsteps of native Canadians, a growing number of immigrants are opting for self-employment. From 1981 to 1986, the number of self-employed Canadians per thousand jumped from 68 to 90, while immigrant self-employment increased from 79 to 116 per thousand.

Moreover, contrary to popular belief, the proportion of welfare recipients among recent immigrants is smaller (12.5 per cent) than among native-born Canadians (13.8 per cent).

An important issue is how well immigrants perform in terms of their earnings relative to comparably qualified native-born Canadians. It matters too whether visible minority immigrants do worse than either other immigrants, or native-born. The Council finds rather reassuring

results, on both counts, based on careful testing in which "endowment" differences between immigrants and native-born are "standardized" and various other factors taken into account. It turns out that there is no systematic discrimination against immigrants, as a whole, nor visible minority immigrants, with respect to income. One important exception, however, is women. Discrimination continues against women, whether immigrants or not.

Last, the report singles out as another important result the fact that, while there is no discrimination against immigrants as such, foreign credentials or education are worth less than Canadian. Immigrants with foreign education and work experience earn less than those whose education and work have been based in Canada. In general, the Council observes, it takes all but the youngest immigrants a number of years to catch up to the earnings of Canadians, although catch up they nearly always do. Immigrants who arrived at an early enough age to obtain all their education and experience in Canada, however, perform as well as native-born Canadians, and this, irrespective of their national origin.

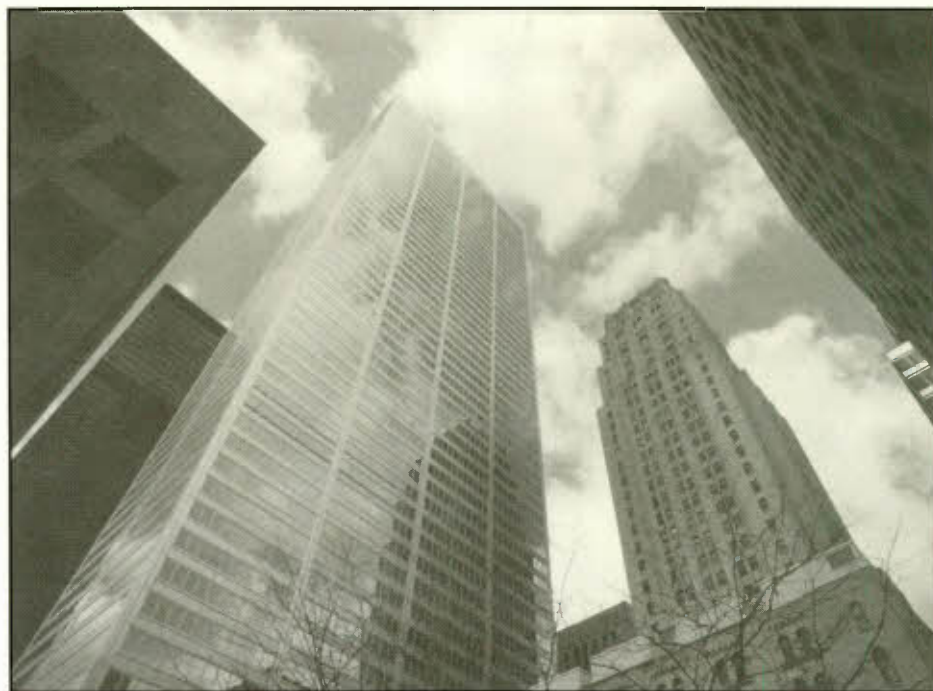
On the subject of language training, the Council points out that immigrants often

derive an economic benefit from learning English or French. It thus suggests that immigrants should pay part of the cost of their language training, in the same way that Canadian-born students contribute towards their postsecondary education.

Overall, then, the economic performance of immigrants compares favourably with that of similarly qualified native-born Canadians, indicating that immigrants adapt reasonably quickly and well to the Canadian labour market.

Refugees

The Council also discusses the extraordinary difficulty the federal government is experiencing in controlling and managing the refugee status determination process. Certainly, the number of refugee applicants has risen dramatically in recent years. While it is fully cognizant of the government's budgetary constraints, the Council feels obliged to point out that a do-nothing policy in this area will entail even heavier costs in the future and may make any recommendations about overall immigration levels purely academic. Action must therefore be taken to control the number of refugee claimants and to reduce the backlog of undecided claims.



A large number of immigrants settles in major urban centres.

The economic consequences of immigration

A positive but limited effect

There are a great number of preconceptions, both positive and negative, about the economic consequences of immigration.

While previous studies on the subject have found a small but negative impact of immigration, the Council's research, in contrast, found that the effects on the host population, indeed are positive although small.

The data collected by the Council's research team show, for example, that if the rate of immigration were doubled from its average level of the past two decades, per-capita disposable income would rise more rapidly, though only by a minute percentage a year. After 25 years, in fact, income would be only about 1.4 per cent higher than it would be otherwise. Naturally, an immigration slowdown of the same order would create an equivalently small reduction.

The foregoing is but one example of the statistics cited by the Council in its Statement, *New Faces in the Crowd*, to support its contention that the economic effects of immigration levels are generally small, no matter what aspect is singled out for measurement.

Three factors studied

The Council's economists endeavoured to measure the economic impact of immi-

gration by focusing on three factors:

- economic efficiency;
- tax and dependency levels; and
- unemployment.

Many Canadians take it for granted that because immigration contributes to population growth, it necessarily increases the country's economic prosperity. Testing this notion - rather than simply assuming it is true because of its seeming plausibility - is very difficult. And it is even tougher to make quantitative estimates of what kind of gains might be possible with increased immigration.

The researchers nevertheless proceeded with international comparisons by analysing statistics on some 68 countries for the years 1960-84 to uncover the relationship between population size and economic efficiency. They found a link, but it is a relatively weak one. They confirmed this result by reviewing the potential efficiency gains from scale economies on a sector by sector basis in the Canadian economy.

Their conclusion? Immigration probably benefits present residents of Canada in gross terms by helping to create scale efficiencies in the domestic market, but the benefits are very small when measured per member of the host community.

The theory that immigration enables employers to fill labour market gaps that occur in particular occupations from time

to time might appear plausible. Yet it is flawed. For one thing, the positive benefits to businesses and consumers of an uninterrupted "flow" of labour are largely offset by negative effects on existing workers' bargaining power. A second difficulty is that there is no reliable way to detect labour market gaps except on those rare occasions when a shortage is so dire that it is unmistakable, such as the shortage of university professors in the 1960s and 1970s.

Another common perception is that immigrants are economically important, because they are more energetic, productive, innovative, hard-working, and so on. But there is very little reason to think, states the Council's report, that their skills or dynamism, such as they are, will translate into larger incomes for the host population. Attempts to estimate such discrepancies using economic models revealed no evidence that immigrants are permanently worth more than they are paid.

The aging population and the burden of dependence

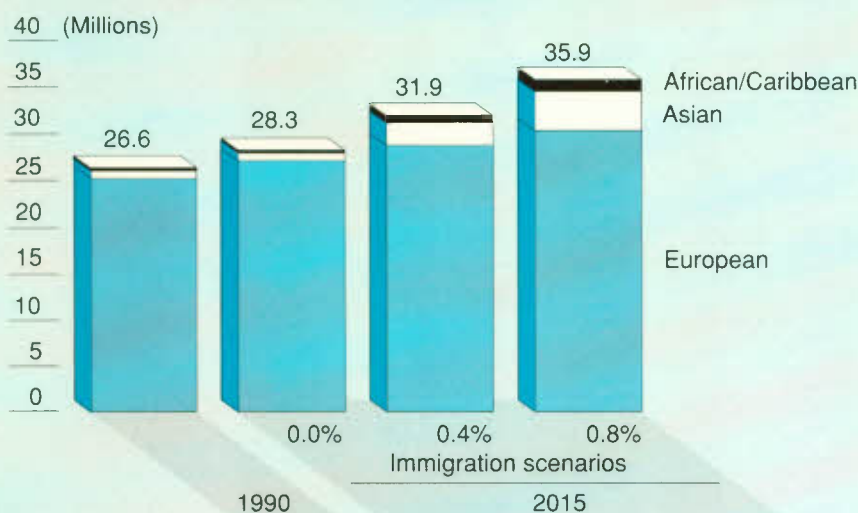
The baby boom has given way to the baby bust, and Canada's population is now growing steadily older. The industrialized economies must one day face up to the problem of an aging population more dependent on social services, coupled with a dearth of workers to finance these needs.

Many people have pointed to immigration as the ideal way to plug this demographic hole in order to finance increased social services.

Yet the Council's research on this issue leads to the conclusion that a higher rate of immigration would cushion the demographic fiscal blow, but only slightly. And these small savings would be further reduced by the costs of necessary services including language training that would have to be provided to the extra immigrants.

To find out how large an effect an aging population and net immigration levels might have on social expenditures, Council researchers constructed a series of scenarios with immigration levels ranging from 0.4 to 0.8 per cent. Doubling the rate of net immigration from 0.4 per cent to 0.8 per cent lowers the

**Ethnic Origin of the Canadian Population in 1990 and 2015
(under Three Immigration Scenarios)**





annual real per-capita cost of social expenditure 25 years later, in 2015, by \$109. This is about one third of one percentage point of a reasonable estimate of per-capita real income in that year.

If immigration is to be increased on the grounds that it will produce fiscal savings, logically the costs involved in the extra immigration must be factored out. In 1985, the federal and provincial governments spent \$432 million (about \$17 per capita) on immigrant assistance programs. The costs connected with these programs will rise as the number of immigrants increases. This reduces somewhat the already small savings.

In sum, concludes the Council, raising immigration levels would only very slightly diminish the future tax burdens associated with aging.

Employment and unemployment

"Immigrants steal jobs from Canadians." So goes the old argument endlessly repeated by those opposed to any increase in immigration.

However, the Council's investigation on this score came to the conclusion that there is no connection between the two as long as the level of immigration remains stable.

Still, the opposite, more pessimistic notion still finds expression, as evidenced by the fact that governments commonly cut back immigration targets during recessionary periods.

The Council's analysis, both of economic theory and a vast body of international statistics, showed that there was no link between the size of a country's population and its unemployment rate, nor between the speed of labour-force growth and unemployment.

Paradoxically, the findings pointed rather to the reverse causal connection — high unemployment tends to deter many would-be immigrants. In point of fact, periods of heavy immigration are generally accompanied by low unemployment rates.

Population size and economic power

Finally, a series of projections using different immigration levels indicated

that, although the size of the country's population might grow as a result of immigration, the relative distribution of population and power among the provinces would be little affected. Council economists developed three scenarios to measure the potential impact of immigration on provincial populations and on Canada's economic power and importance relative to other countries.

Under the first scenario, where no further immigration was allowed, Canada in the year 2015 would have close to the same ethnic mix as today, and total population would be much the same it is now. Real per-capita income would be about one third higher than in 1990. Canada would remain a small economic power vis-à-vis both the United States and the larger Western European nations. The regional distribution of the domestic population would be altered somewhat. Quebec, Manitoba, Saskatchewan, and the Atlantic provinces would experience declines, while Ontario, British Columbia, and Alberta would record slight growth.

Under the second scenario, net immigration is assumed to continue at the pace of the last 20 years levels (approximately 0.4 per cent). Canada's population would grow to about 32 million by 2015; even then, however, the nation would remain a

minor power, less populous than the major European democracies. Living standards would rise only slightly more than in the first scenario. Ethnically, there would be changes; from its present level of 96 per cent, the proportion of the population that is of European and aboriginal origin would fall to 90 per cent.

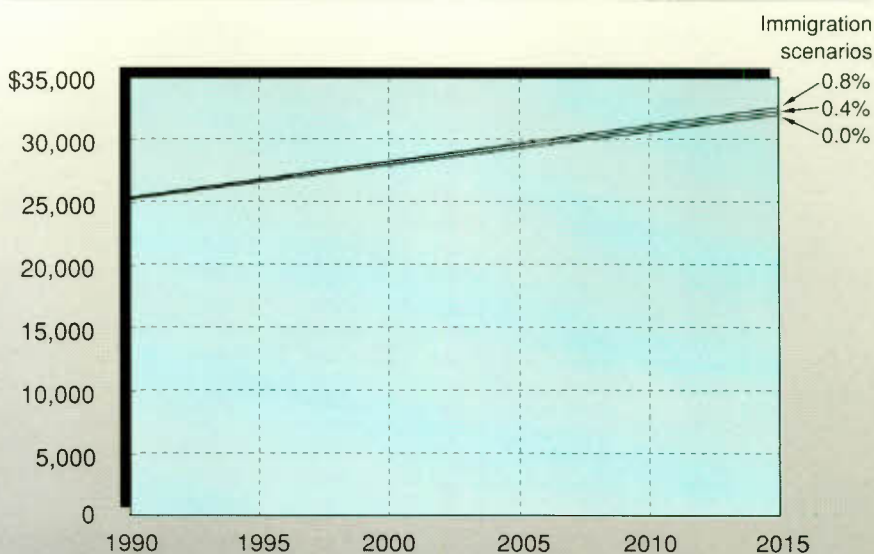
Under the third scenario, which assumes a high immigration rate of 0.8 per cent, Canada would achieve a population of 36 million by 2015, 35 per cent larger than today's. Even with this increase, Canada would still lag behind France, the United Kingdom, and Italy in terms of population. However, in terms of gross domestic product (GDP), Canada might actually surpass Italy and the United Kingdom. Thus the third scenario offers something approaching medium economic power status.

The third scenario would also bring about a dramatic change in the ethnic mix in the provinces and cities. For Toronto, Vancouver, and Montreal, the non-European share of the population would be 29, 26, and 17 per cent, respectively.

Effect on provincial populations

If prevailing patterns of immigration continue, the impact will vary among the

Income per Capita, 1990-2015 (under Three Immigration Scenarios)





provinces as is borne out by the simulations based on the Council's three scenarios.

Newfoundland, New Brunswick, and Prince Edward Island will experience a decline in population relative to the nation as a whole. That decline is more

pronounced when the level of immigration rises. Though it fares better than the other Atlantic provinces, Nova Scotia also slips relative to the central and western provinces.

Quebec's proportion of Canada's population is not much affected by immigra-

tion; its share drops close to 4 per cent under all scenarios. However, Scenarios 2 and 3 do convert absolute population decline into absolute growth.

Ontario grows under all scenarios in both absolute and relative terms. Scenarios 2 and 3 simply accelerate this process. Even with no further immigration at all, the province will grow by nearly 1 million people by 2015. In Scenario 2, Ontario gains over 2.5 million. In Scenario 3, where a doubling of net immigration rates is hypothesized, the population increases by close to 5 million. As a result, it will have 40 per cent of the national population by 2015, according to this scenario.

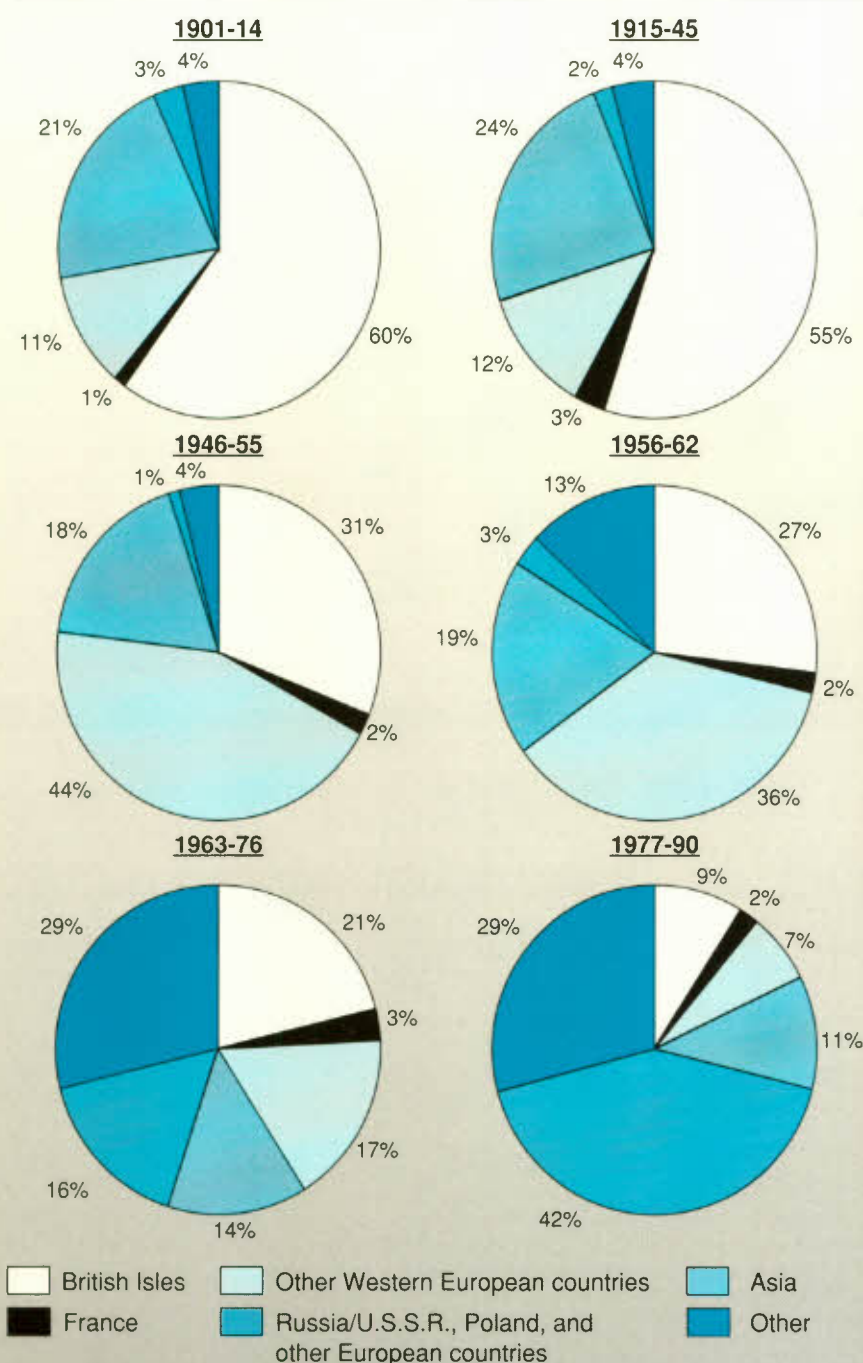
In Manitoba, under Scenario 1, the population is stable or declines slightly. It increases by 13 per cent under Scenario 2, but still falls relative to the rest of the country. In Scenario 3, it rises by 30 per cent and almost retains its present share of the national total.

Saskatchewan's share of the Canadian population remains stable under Scenario 1 but falls under Scenarios 2 and 3, the more so the higher is immigration.

The fortunes of British Columbia and Alberta are similar through the three scenarios. They experience rapid and substantial expansion, both in numbers and ethnic diversity. With no immigration, Alberta grows by 26 per cent, and British Columbia, by 17 per cent between now and 2015. Under Scenario 2, the figures are 38 and 32 per cent, respectively. Under Scenario 3, a rise of 52 per cent gives Alberta a population of nearly 4 million people by 2015; and British Columbia, with a gain of 50 per cent, will have a population of not quite 5 million.

The Council's report sums up by noting that, no matter what immigration scenario is chosen, per-capita living standards in Canada are not greatly affected.

Immigrant Flows, by Region of Origin, Canada, 1901-90





A new "moral contract"

Immigrants and Canadians have mutual obligations towards each other. One way to promote fulfillment of these obligations would be to adopt, Canada-wide, the notion of a "moral contract" between immigrants and native-born Canadians, whereby each party commits itself to respect certain fundamental values of the other. Such a commitment would serve to smooth the integration of immigrants into the country's cultural mosaic while enhancing the benefits that native-born Canadians can derive from the cultural diversity of new arrivals.

Drawing inspiration from the formula developed in Quebec, the Council's Statement entitled *New Faces in the Crowd* specifically calls for the institution of such a "moral contract." The majority of Canadians and immigrants already tacitly subscribe to such a contract, but the Council argues that an explicit statement of this commitment would foster greater mutual understanding and respect.

This contract would be developed by the appropriate governmental agencies in consultation with immigrant groups. Immigrants, for example, would make a commitment to the Canadian Charter of Human Rights and to learning English or French. Native-born Canadians would make a commitment to respect immigrants' culture and language and to help them in their social and economic integration.

Two possible approaches

The Council considered two alternative strategies on the part of the host population towards immigrants – integration and assimilation.

The former approach is aimed at promoting the full participation of immigrants in the host society while allowing them to retain their cultural identity. Assimilation, on the other hand, obliges immigrants to give up their cultural identity as the price for acceptance by the host society.

Integration is, in fact, the official strategy followed by the Canadian government, as embodied in its multiculturalism policy. Yet this approach and the policies that flow from it still arouse a degree of resentment and misunderstanding among a minority of Canadians. It seems to them



that this formula demands too much adjustment on the part of Canadians and too little by immigrants. Some Canadians are beginning to feel that they are expected to be tolerant of immigrants' different ways, but that immigrants are not required, or even expected, to adjust to Canadian ways. The impression is created that Canadian culture is undervalued.

Of course, one way of responding to these signs of resentment would be to adopt an outright assimilationist policy. But even if a sizable segment of public opinion did favour such a change, the Council argues that it is far from certain that it would be in the best interests of the country as a whole.

The Council therefore favours a multiculturalist policy, although it feels that some modest adjustments are needed. Multiculturalism is not aimed at maintaining full cultural systems, but at preserving as much of ethnic cultures as is compatible with Canadian customs. The speaking of heritage languages in the home and at social functions can usually be preserved without any difficulty. However, certain traditional practices of some cultures conflict with Canadian norms and should be "left at the door," such as regressive attitudes towards women and intolerance of religious differences.

Immigrants should be expected to subscribe to fundamental Canadian values and to learn English or French once they settle in the country. Canadians, for their part, should be willing to help immigrants adjust, both individually and through their governments, and to tolerate gladly those cultural differences that do not conflict with fundamental Canadian values.

Combating prejudice

Despite some evidence of growing tolerance towards ethnic minorities, prejudices has not been eliminated from the Canadian scene, and any rise in the visible minority immigration rate carries the risk of more frequent racial incidents.

Those considerations prompt the Council to recommend that the multiculturalism policy be reinforced through a major strategic initiative to combat racism and foster tolerance. "A comprehensive strategy is needed, involving action by both Canadians and the immigrants themselves," says the Council's report.

Such a strategy, which would be devised jointly by the three levels of government and the private sector, should contain, at a minimum, the following elements:

- an expansion in funding of existing programs designed to fight prejudice at all levels;
- an increase in the current efforts of businesses, unions, communities, and the educational sector to combat racism and promote integration;
- more obligation on the part of immigrants to learn English or French, since this would tend to decrease hostility towards them;
- dissemination of information to defuse hosts' fears that they will lose jobs to immigrants – fears that research has shown to be unfounded;
- avoidance of any sharp increase in the number of immigrants;
- training of immigrants regarding cultural traditions that are inappropriate in Canada, especially with respect to gender equality and attitudes towards authority figures such as police officers, social workers, and public servants in general; and
- extensive race relations training for police forces.

Canadian productivity

Canada is a trading nation. More than 30 per cent of its total output is exported to countries throughout the world. Thus the prospects for improving Canada's standard of living are closely linked to its ability to stand tall in international markets and to sell its products and services.

Since the economic challenge facing Canada is quite clear-cut, it is essential to determine how the country measures up to its major trading partners in terms of competitiveness. To do so, it is necessary to pinpoint the factors that have influenced both the past and present performance of Canadian productivity and costs and to identify the various elements that must be put in place, if Canada is to improve its chances of success on world markets where borders and distances are quickly evaporating through the magic of instantaneous communication networks and high technology.

For some time now, an Economic Council of Canada research team headed by research director Sunder Magun has been wrestling with the complex issue of Canada's competitiveness relative to its major trading partners.

The final consensus statement of this ambitious project, which will present an analysis of the situation and the Council's recommendations in this regard, is sched-

uled for publication later in the year. In the meantime, some recently completed preliminary studies have brought to light some revealing facts on productivity, cost performance, and Canada's international competitiveness.

Productivity and competitiveness

The researchers have singled out several different aspects of international competitiveness, including labour productivity, total factor productivity (TFP) – which measures the overall productivity of the production process – hourly compensation rates, the level and variability of nominal and real exchange rates, the use of technology, research and development, innovation, capital accumulation, quality of the work force, quality of management, and the role and influence of multinationals in the country's economy. These studies examined the competitiveness position of Canadian industries in various export markets.

The study focusing on Canada's productivity and competitiveness, undertaken by economists Someshwar Rao and Tony Lemprère, arrives at a rather sobering conclusion: total factor productivity growth has declined dramatically in most Canadian industries in the post-1973

period, and the growth of Canadian manufacturing productivity has slowed in recent years relative to all other G-7 member countries. In addition, Canada's cost competitiveness vis-à-vis the United States has declined dramatically since 1986, due in large part to the substantial appreciation of the Canadian dollar relative to the American currency.

In every major industrial sector, with the exception of fishing, output growth declined substantially after 1973, the year in which the first oil-price shock hit. That year marked the start of a long, broad-based decline in Canadian productivity growth and in that of other industrial nations.

The growth of Canadian real output (GDP) steadily declined from 5.4 per cent per year in the 1962-73 period to 2.7 per cent in the 1980-86 period. (See chart Growth in Canadian GDP and its Sources, 1962-86.) The slowdown in total factor productivity (TFP) and in employment accounted entirely for the slowdown in Canadian real output.

On the other hand, the growth in capital accumulation (capital-labour ratio) has not contributed to the slowdown in output.

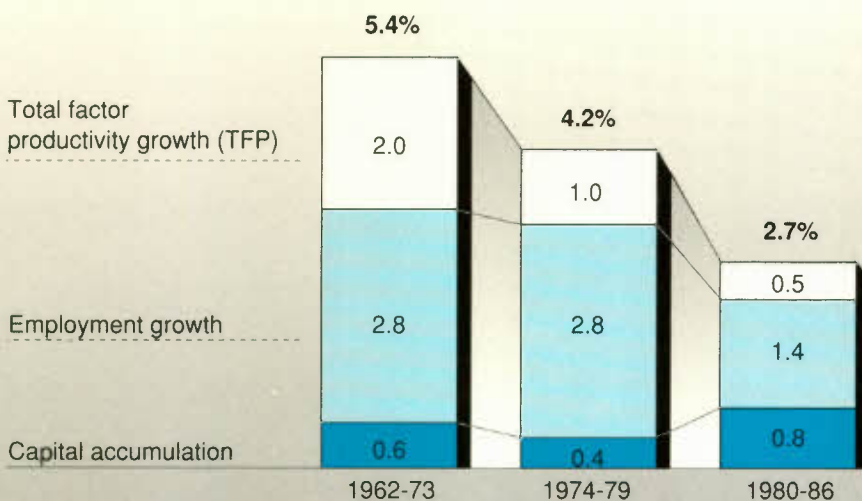
Still, in the postwar years, Canada did manage to substantially increase both its aggregate labour productivity and real per-capita income levels relative to the United States. An examination of productivity levels in the manufacturing sector of G-7 countries is most revealing in this regard; it shows clearly that, between 1951 and 1980, Canada succeeded in narrowing by almost 51 points its productivity gap with the United States. At the end of this period, Canadian productivity lagged behind by only about 21 per cent.

However, since 1980 the situation has worsened. Between that year and 1989, the gap widened by 13 percentage points to 34 per cent.

France, Germany, and Italy, countries whose manufacturing productivity levels in 1951 were about half as high as Canada's, had all passed Canada by 1989. In 1951, Japan's manufacturing productivity was only 17.3 per cent that of Canada's. Yet it now stands at 85.4 per cent, a jump of almost 70 percentage points. And, by all indications, the Japanese manufacturing productivity level could surpass Canada's level in the

Growth in Canadian GDP and its Sources, 1962-86

Average annual percent change



next decade. (See chart Manufacturing Labour Productivity Levels.) The United Kingdom is the only G-7 country whose productivity performance did not significantly improve relative to Canada.

An industry breakdown indicates that the manufacturing-sector productivity gap relative to the United States is pervasive across the vast majority of manufacturing industries.

The picture is not entirely bleak, however. It should be noted that, relative to the United States, Canada has improved its "aggregate" labour productivity and real per-capita income levels. On these two accounts, Canada indices are almost identical to those of the United States (about 95 per cent of U.S. levels) and ranks second on the world scene. Better productivity performance in mining, construction, utilities, transportation, storage, and communication industries was largely responsible for the closing of the aggregate labour productivity gap.

Explaining the productivity slowdown

The researchers' analysis suggests that the slowdown in Canadian manufacturing labour productivity can be attributed mainly to the adverse impact of three factors:

- 1 The real price of energy has risen substantially.
- 2 Wages have ceased to rise significantly faster than the prices of other inputs, with the result that the substitution of other inputs for labour has slowed.
- 3 The value of the Canadian dollar has increased dramatically since 1986, primarily as a result of rising Canadian interest rates, leading to a marked decline in Canada's price competitiveness in U.S. markets. This real appreciation of the exchange rate has had, on average, a small negative influence on Canadian manufacturing productivity, a sharp contrast to the positive response of the U.S., German, and Japanese manufacturing industries to the appreciation in their currency at various times in the last decade.

The analysis implies that the post-1973 period of poor Canadian manufacturing productivity performance relative to the United States, Canada's largest trading

partner, was largely due to the following factors:

- a smaller adverse impact of the two energy price shocks on the U.S. productivity;
- a substantial positive rationalization effect on the American productivity, induced by the marked appreciation of the U.S. dollar in the 1980-85 period, and the large increase in the R&D/sales ratios in the U.S. manufacturing industries.

In summary, the Council's researchers indicate that Canadian industry's slower adaptation to the two energy price shocks has created a vicious circle of poor productivity and cost performance, lower capacity utilization, and a real wage slowdown in Canada.

However, the productivity problems now facing Canadians are not entirely the result of structural problems. The Council's researchers offer a somewhat optimistic outlook for productivity growth and real income gains. They base this prognosis on three factors:

- 1 After correcting for the influence of identifiable factors such as capacity utilization, real energy prices, real wage, real exchange rate, and R&D) there is no break in trend productivity growth in Canada.
- 2 The substantial gap between Canadian and U.S. manufacturing levels

should give an added impetus to Canadian productivity.

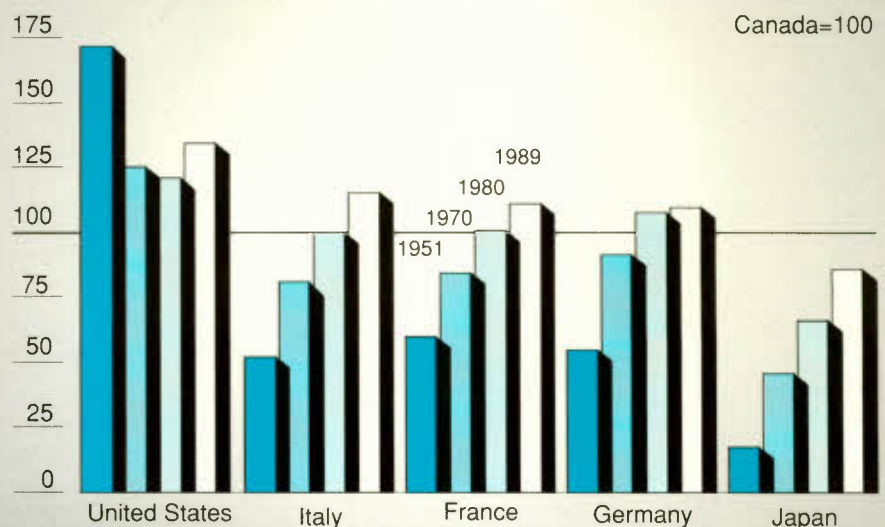
3 The expected slowdown in the growth of the source population and labour force and the resulting upward pressure on the price of labour relative to other input prices should induce capital accumulation and improve productivity performance.

The Council economists also believe that a significant change in the current Canadian fiscal and monetary policy mix would have a positive impact on productivity and competitiveness. Tighter fiscal policies (both federal and provincial), to address budget deficit problems, would simultaneously allow interest rates and the exchange rate to fall and thus improve Canada's cost competitive position. By depressing domestic demand, it would also offset inflationary pressures emanating from the lower exchange rate because of domestic demand.

According to their analysis, Canada's productivity and cost performance can also be improved by policies that:

- facilitate and strengthen the ability to adjust to longer-term structural changes by increasing market flexibility; and
- increase domestic competition by removing national and interprovincial trade and investment barriers.

Manufacturing Labour Productivity Levels, Selected Years, 1951-89



Transitions for the 90s

Council Chairman Judith Maxwell spoke recently to the Treasury Management Association of Canada on the economic challenges facing Canadians in these troubled times. She discussed ways of dealing with these challenges as outlined in the Council's recent 27th Annual Review.

When I stand in front of a business audience these days, I do not need to explain that these are troubled times – that Canada's industrial fabric is under great stress.

The most basic of the stresses on the system is an ever-increasing pressure to compete effectively in the world marketplace. Directly related to that are strains generated by high interest rates, the strong dollar, the federal deficit, rising unemployment and deeply entrenched inflation expectations. Superimposed on all that, we have to rethink Confederation itself.

Without taking the time to describe these problems in any detail, let me set out for you some of the thinking behind the Economic Council's recently released Annual Review entitled *Transitions for the 90s*. In this report we are setting out some practical options for Canadians – options that attack the root causes of our economic woes.

The Council starts from the premise that the status quo is not working. Basic changes have to take place in the way we manage the Canadian economy if we are to find the path to recovery and then avoid getting into this predicament again.

First of all, it is clear that we need appropriate fiscal and monetary policies to correct for the excesses of the past. But the Council is arguing that we must go beyond the traditional technical solutions if we are to create a sustainable recovery.

We believe that the issues that cause us so much concern today – unemployment, inflation and the federal deficit – are actually symptoms of two much more deep-rooted problems. I call them fragmented decision making and an inflexible economy.

Fragmented decision making

First, fragmentation. There is a tendency in this country to compartmental-

ize problems. We assign the role of inflation fighter to the Bank of Canada, and the role of deficit cutter (at least since 1984) to the Minister of Finance. We designate a government department, Employment and Immigration Canada, to fight unemployment with labour market programs – and so on. Meanwhile, everyone else goes their merry way – provinces, business and labour, as if they had no role to play at all.

One of the main consequences of this attitude is the lack of co-ordination of economic policy among the different jurisdictions.

What is more, if economic policies are going to be truly sensitive to the vast differences in economic structure across Canada, the provinces need to be players in those policies.

An inflexible economy

The second problem is rigidity. This shows, at one level, the inability of the country to adapt efficiently to market changes. Canada is not the country of the quick rebound. The national unemployment rate rose by 4 percentage points in the two most severe recessions in recent times – 1958 and 1982. In both cases, it took six years of sustained growth to get back to the starting line.

Another sign of rigidity is the slow response by business, labour, and government to changes in the economic environment. In 1981-82, for instance, wage settlements did not start to reflect the reality of a recession until 18 months after the unemployment rate had begun to rise. Even now, after manufacturing has been in a steep decline for nearly a year, we see major companies awarding wage settlements that appear to be well in excess of productivity gains.

In short, our true handicaps in Canada are fragmented decision making and an inflexible economy. Both are self-inflicted. They are problems we can solve if we put our minds to it. In fact, we have reached the stage where we cannot afford to let them continue.

A new direction

The Council has no detailed blueprint to overcome these handicaps. But we do have a clear vision of the direction to



Judith Maxwell

take. That vision emerges from an examination of how other countries manage their economies.

We note how a number of small, but, in economic terms, successful countries in Europe manage to achieve their economic goals – Switzerland, for example, as well as Austria, Sweden, and Norway.

Over the past 25 years, these countries have managed, for the most part, to contain inflation, keep unemployment rates low, and either balance their budgets or register surpluses. All this and economic growth too.

It would be naive to think that what works there will automatically work here. For one thing, co-operation between labour and management is much less developed in this country than it is in some others. For another, we have strong provinces and wide divergences in regional economic structure.

But it is not our destiny to enter the world marketplace unco-ordinated and fragmented against rivals who have their act together. It is time for labour, management, and government to wake up to the competitive advantage that co-operation brings.

This is a big task, so we have to start with small, feasible steps.

Let's start with the public sector: We have to start building better co-ordination of economic policy between federal and provincial governments.

Here again, there are things we can learn from foreigners – in this case the experience of the member nations of the European Community as they complete their journey to 1992.

The architects of the new Europe have now abandoned the goal of “uniform rules” in favour of “mutual recognition.” There is now a recognition that each state is both sovereign and unique. So once they agree on goals, they recognize the capacity of each government to achieve these goals.

Mutual recognition has some obvious relevance for Canada. The federal and provincial governments could agree on goals and basic standards. Once adopted, each jurisdiction could assume responsibility for putting them into effect.

This kind of approach would be particularly useful in the current situation where the federal-provincial dialogue is in limbo, and the nature of the future relationship between Quebec and the rest of Canada is unknown.

In the face of that uncertainty, we still have to occupy the same “economic space.” We simply cannot abandon the job of managing the economy in a period when times are hard and our competitors are reaping the rewards of greater integration.

So how do we begin?

One place to begin is with public sector pricing. In the spirit of “mutual recognition,” federal and provincial governments should develop guidelines on prices, taxes, user fees, and the rest. This would act directly on the rate of increase in many prices and charges. It would also dampen the expectation that inflation will get worse because even governments have given up.

Business and labour leaders can help this process along by lobbying provincial and federal governments to develop such guidelines.

Why, you might ask, should governments agree? Because they want to see interest rates and the value of the dollar at levels that will permit the economy to recover and will encourage firms to adapt to global realities.

A second place to begin is to build the foundation for a closer partnership between business and labour. We cannot compete in the so-called “high value-added” industries unless we have a

talented, creative workforce that is either at work or in training. Putting workers on UI for extended periods of time may keep them from starving, but it does nothing for economic development.

The immediate agenda then for business and labour is training and adjustment. This is not a concession to labour’s agenda. This is an agenda for all Canadians – an agenda for economic success in the 1990s and for economic justice for individual workers.

Over the past few years, we have seen a number of path-breaking experiments in sectoral co-operation. It has happened in the steel industry, in the electrical and electronic industry, in the automotive repair and service industry, and in western forestry. In each case, business and labour, usually with financial and logistical support from governments, have struck a bargain to co-operate on training and adjustment. The results are not perfect, but they are impressive. What we must now do is forge broader-based institutions around these experiments so that the benefits of co-operation can be diffused throughout the economy.

Several provinces and the federal government are now seriously considering creating training and adjustment boards. The plan is to delegate to the business and labour members on these

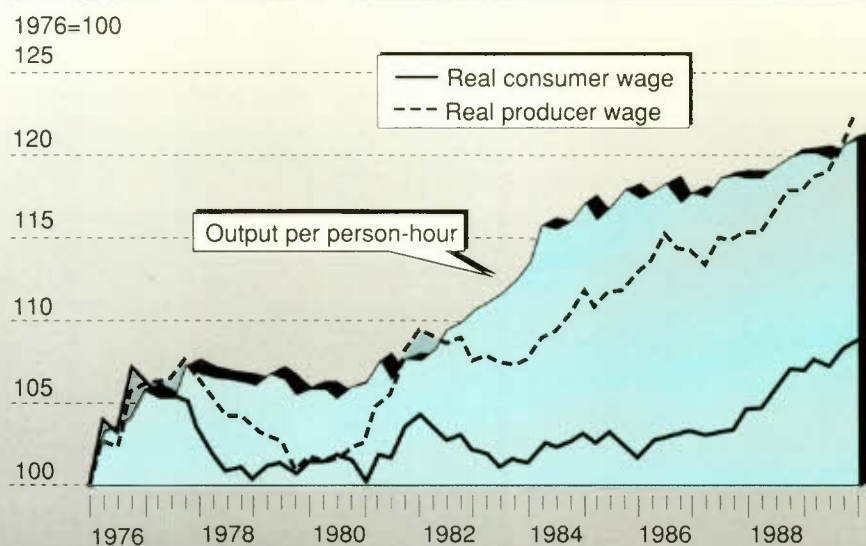
boards the power to design and deliver training. The success of these initiatives will depend critically on the will of business and labour.

In closing, we are in a time of great social and economic stress. Periods like these are painful, but they can be useful if they force people to try new approaches to solving problems. What the Economic Council of Canada is saying in *Transitions for the 90s* is that the status quo in economic policy is not good enough. It is not responsive enough to changing market signals, it is not sensitive to differences between regions, it generates unacceptable choices for Canadians.

Tensions are bound to exist in a large and complex confederation like ours. We have a history of adversarial relationships in collective bargaining and in partisan politics, and we cannot expect to override that history in one fell swoop. But there comes a point where leaders from all sectors focus so much on their battle skills that they lose sight of the overall objective. When that happens, the economy slips into a long-term decline. And, unfortunately, it is the people of Canada who bear the scars.

Thus the time has come to try to build a new set of attitudes and institutions that will help all Canadians to focus on solving problems, rather than angrily casting blame on others.

Real Wages and Output per Person-Hour, Canada, 1976-89



Structural change and adaptation

Every day, many Canadians experience a change in their jobs. Some job changes are voluntary, a return to school or the birth of a child for example; others are involuntary, such as when a firm closes down or lays off employees or when an employee is fired. At the same time workers are constantly finding new jobs. For some it is a new position in a new plant in an expanding business, or for others it is replacing an employee who has left.

This constant process of change in the labour market, with all that it entails in terms of reallocation of workers across and within industries, requires careful evaluation, if policymakers are to develop policies aimed at helping both workers and firms to adapt to an economy which is in a perpetual state of flux.

The challenge of investigating this constantly shifting situation has been taken up by two economists, John Baldwin and Paul Gorecki, in their study *Structural Change and the Adjustment Process*. The study attempts to provide a better picture of the extent, significance, and nature of the short- and long-run changes taking place in the Canadian labour market, particularly in the manufacturing sector. It thus builds upon and extends the results previously published in the Council's *Adjustment Policies for Trade-Sensitive Industries*. A major part

of the current project was accomplished through the development of longitudinal databases of firms and workers at Statistics Canada, which co-published the study with the Economic Council of Canada.

While research on patterns of worker and firm mobility and adjustment is not new, there is still a dearth of information on worker turnovers, on the growth and decline of firms, and on the amount of firm entry and exit. This has led to both superficial and quite often incorrect perceptions of the extent and nature of all these changes. This in turn creates the danger that policies will be implemented for problems that are poorly documented or even non-existent, or that expensive solutions will be developed for imagined problems, leaving the real difficulties unresolved.

The extent and nature of change

The study shows that at least 30 per cent of the jobs that existed in 1971 had disappeared by 1981 because of plant closures or cutbacks. Meanwhile, the percentage of jobs gained as a result of plant expansion and opening was substantially higher.

Against this backdrop, Baldwin and Gorecki attempt to estimate the pattern and magnitude of worker and job reallo-

cation, in both the long and the short run, as part of the dynamics of the market economy. Their study tries to answer such questions as:

- Have there been shifts in the relative importance of different sectors and industries?
- What is the comparable magnitude of the changes between sectors as opposed to those within the sectors themselves?
- What effects do firm exit and entry rates have on the release and hiring of workers?
- How extensive is the employment expansion and contraction of continuing firms?
- How important is firm size in the process of job gain and job loss?
- How significant are worker separations?
- What is the relationship between firm-related job turnover and worker separations?

The authors have drawn a distinction on the one hand between the growth and decline of jobs associated with employers' demand for labour (job turnover) and on the other hand job separations caused by workers separating from their employers as a result of resignations, returns to school, pregnancy, and other causes.

The study describes the influence of firm entry, exit, growth, and decline on job turnover in the manufacturing sector. This information is generated by building up data from changes at the level of the individual establishment.

Over the period 1970-79, the cumulative effects of entry and exit were large. New manufacturing firms operating in 1979 that had appeared after 1970 either as a result of a merger or of new plant construction accounted for 33 per cent of firms and 29 per cent of employment at the end of the decade. On the other hand, 43 per cent of the firms existing in 1970, accounting at that time for 32 per cent of employment, had disappeared either by mergers or closures by the end of the same period.

Worker separation

The authors reveal that the economy-wide number of separations – from all causes – was equal in magnitude to about one half of the work force. For the years 1974-83, the average separation rate in manufacturing was equivalent to 64 per

Distribution of Reasons for Separation, All Industries, Canada, 1974-86

Mean

Layoff	44.2%	
Labour dispute	0.5%	
Return to school	3.9%	
Illness/injury	3.8%	
Quit	23.7%	
Pregnancy	2.2%	
Retirement	0.9%	
Work sharing	1.1%	
Other	20.1%	

cent of the work force. The permanent separation rate – that is, the percentage of workers who do not return to the same employer within two years – was much lower, 26 per cent for the economy and 41 per cent for manufacturing. In other words, many layoffs were temporary.

There is substantial variation in those separation rates across sectors. For example, between 1978 and 1981, the annual permanent layoff rate was approximately 7 per cent in the manufacturing sector, 40 per cent in construction, 30 per cent in the primary sector, and only 4 per cent in transportation. Moreover, job separations due to layoffs are typically at least as large as the annual job-loss rate from job turnover calculated for declining and exiting establishments.

The aggregate economy-wide picture is that of substantial change in terms of worker separation and job turnovers.

Such change may not be typical of all sectors. Therefore, the study carefully reviews a large number of studies of labour mobility in industries such as footwear, shipbuilding, automobiles, and steel. These confirm the overall picture of mobility.

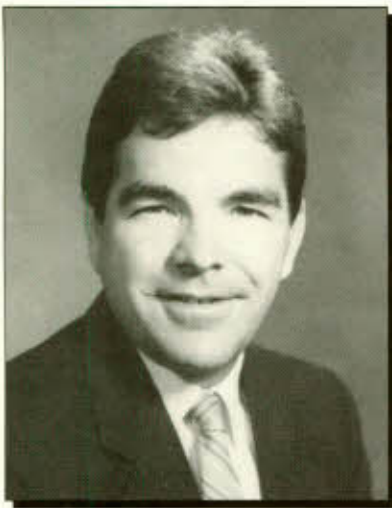
The authors note that the higher incidence of year-to-year net job gain in small manufacturing firms should not mask the fact that the aggregate long-term employment losses and gains from declining and growing large firms account for a greater proportion of total job losses and gains. Obviously, large firms employ many more people than small firms. Thus, while workers in small firms face a greater chance of losing their jobs because of a higher incidence of firm failure, in absolute terms job loss is highest among the large continuing firms that are shedding jobs.

In the decade 1971-81, plant closures accounted for 19 per cent of 1971 employment while plant decline led to a further 12 per cent. On the other hand, during the same period, establishment entry added the equivalent of 19 per cent of 1971 employment, and growth in continuing establishments added another 21 per cent.

Baldwin and Gorecki offer a detailed portrait of labour mobility between industries. One of the conclusions of their research and analysis is that governments should strive for policies designed to facilitate, not hinder, the natural movement of workers who are constantly being released from their jobs.

They also recommend that adjustment policy should be aimed at Canadian industry as a whole, not targeted at specific sectors since it is difficult to isolate a particular cause of change amid this constant sea of change.

New Council members



Adam Lapointe is President of SOCCRENT (Société en commandite de création d'entreprises). A graduate of Laval University in Quebec City, he has been professor of Economics at the Université du Québec at Chicoutimi, and lecturer at Laval University and the Université du Québec at Trois-Rivières. Mr. Lapointe has taken part in the creation of numerous businesses. He is part owner and board member of many Quebec small and medium-sized companies. He has also written many articles and books.



Mary Mogford is President of Mogford Campbell Associates Inc. of Toronto. She is a graduate of the University College of Wales at Swansea. From 1987 to 1989, she was Deputy Treasurer and Deputy Minister of Economics in the government of Ontario. She has held senior positions in the Cabinet Office, the Ministry of Community and Social Services and the Ministry of Natural Resources. She is a member of the Board of Governors of Trent University and the Board of Directors of the Niagara Institute.



Ralph Hedlin is President of Ralph Hedlin Associates. He graduated from the University of Saskatchewan. Mr. Hedlin has been involved in the field of energy economics and political trends. He is also an active member of various committees on economic issues. He has been a consultant, a freelance writer and photographer, and from 1955 to 1958 he was editorial writer for the *Winnipeg Free Press*.

Income and poverty dynamic

Council Deputy Chairman Harvey Lazar spoke recently to the Social Planning and Research Council of British Columbia about the changes that have characterized the economy in recent years. Referring to research begun this year by Council on poverty and social issue, he also described the new dynamics of income and poverty within the Canadian society. Following is an excerpt taken from his speech.

I'd like to say a few words about some new research that the Economic Council has started and that has the potential to shed new light on income dynamics and poverty dynamics, with implications also for the design of income support programs.

Over the last two and one-half years, the Economic Council has been working with Statistics Canada, in conjunction with two provinces, to develop a new database which would enable us to track families and individuals over a five-year period (1982-86). That database has now been completed, and the Council has just begun working on it. The database is drawn from taxation files from the entire country, and social assistance files from the two participating provinces. (Needless to say, all of this work is being carried out in a way which meets both the letter and spirit of the law in respect of such matters as privacy.) We are still in the very early days of our analysis. Nonetheless, I would like to give you a sense of some of the early messages that are emerging from the data. As the research evolves, of course, some of the messages may themselves change.

The extent of change in family composition is my starting point. For purposes of our analysis, we describe as "family change" any one of the following four events: a marriage or the start up of a common law relationship; a marriage dissolution or the end of a common law relationship (including the death of a spouse); the entry of a first child into a family; and the departure of the last child from the family (the empty nest). Between 1982 and 1986, the composition of 30 per cent of Canadian families changed on the basis of this definition.

Second, in addition to all this change in family composition, there appears also to be lots of volatility in family incomes. In

analyzing the new database, we ranked all families in the base year of 1982 from bottom to top according to their income, i.e., the lowest 20 per cent of the population in terms of family income were in the lowest quintile, the second lowest 20 per cent in the second quintile, and so on up to the top 20 per cent. Between 1982 and 1986, over one half of Canadian families changed quintiles. Indeed, the figure is 33 per cent in a single year.

Third, it is not labour market events alone which are causing such change. Indeed, changes in family composition are heavily correlated with changes in family income.

The probability of escaping poverty increases dramatically when low income individuals marry. When a single person who is poor marries, there is about 70 per cent probability that the individual will move out of poverty. If a single parent marries the probability of leaving poverty status is around 60 per cent. We do not have enough analysis yet done to comment on the flow of causality. But at least our initial glimpse at the numbers coming out of the database suggest that we have found a pretty good advertisement for marriage.

Equally, marriage dissolution appears to increase the probabilities of going from the state of being non-poor to poor. The probability for married couples of going from poor to non-poor over the 1982 to 1986 period was about 3.7 per cent. But if you were married and became single, the probability was about five times as high. If you were married and became a single parent, the probability was about ten times as high.

You will not be surprised to learn, of course, that the probability of moving into and out of poverty is also highly correlated with the number of earners in the family. When the number of earners rises from one to two, a family has a very high probability of exiting from poverty. Similarly, when the family loses its last earner, there is a high probability of entering poverty.

Let me add a few words about the overall poverty rates that come out of the analysis. From traditional cross-sectional analysis, we know that over the period 1982-86, an average of about 16 per cent of the population was poor each year. If we include all those who were poor at

any time over the 1982-86 period, however, we find that close to double that number, i.e., around 28 per cent of the population, was below the low-income cutoffs in at least one of the five years for which we have data. In other words, a far higher proportion of families touch poverty over an extended time period than is suggested by the cross-sectional data. Again, using our same database, we found that approximately 7 per cent of the total population was poor for all five years. Those who were poor for one of the five years we refer to as the "transitional poor." Those who were poor for all five years we refer to as the "persistently poor."

The transitory poor and the persistently poor differ significantly in terms of their family characteristics. The composition of the transitory poor is very similar to that for the population as a whole. But the persistently poor are far more likely to be either single or single parents than the total population.

In providing these few preliminary research results, it is intended only to suggest that we appear to have very powerful new research tool to assist Canadians in understanding important economic and social trends and to help them in making wise decisions about public policies. What lies ahead for this database? In the very short run, we hope to be able to add social assistance data from one additional province to improve the sample from across the country. In the next year or so, it may also be practical to add at least two years of further data to the file (i.e., to extend it to 1988 from its current termination date of 1986).

Finally, if Canadians will be reassessing the effectiveness of their income support programs in the years ahead, it will not only be possible to learn from studying the innovations that have been undertaken provincially over the last few years but also from the new database that has been developed. Understanding the dynamics of income change is fundamental to wise decisions about the development of income support programs. Thus the new Longitudinal Administrative Database can indeed serve as an important tool for policy development in the years ahead.

The economic union of Canada

With the demise of the Meech Lake Accord, the Canadian federation seems beset on all sides. The current division of powers between the central government and the provinces is widely questioned. Some Canadians are now openly discussing new forms of regional association within Confederation, others are calling for massive decentralization or arguing in favour of greater regional autonomy.

As the main theme of its 28th Annual Review, to be published in the fall of 1991, the Economic Council has decided to devote its attention to the evolution of economic and fiscal linkages within the Canadian economic union. Jean-Pierre Voyer will be the director of this project, assisted by a group of researchers at the Council, including the Performance and Outlook group, directed by Ross Preston, as well as a small number of academic researchers on contract. *Au Courant* recently interviewed Mr. Voyer about the new project.

Au Courant: In what way can economists contribute to this new round of constitutional soul-searching?

Voyer: There is no doubt that the eventual outcome of the current debate will strongly affect the country's economy and the welfare of its citizens for many years to come. Thus, it would be a mistake to overlook the economic aspects of the question. There have been a number of attempts by economists since the late 1970s to "sum up" the regional gains and losses associated with federalism; unfortunately, the results have usually been contradictory and have had the effect of convincing the public that the advantages and costs involved in a major overhaul of the power structure would be minor.

Au Courant: And some might conclude that the economic aspects of the debate are not really that important?

Voyer: Exactly, yet this is far from true. The advantages and disadvantages of specific forms of political organization and power sharing can only become clear in the medium to long term.

The impact on the living standards of Canadians may turn out to be critical, once we take the trouble to tally up the advantages and disadvantages in a framework that looks beyond simplistic exercises in economic accounting.

It is also important to place the debate in the context of today's global economy. Canada and its regions are facing the daunting challenge of adapting to world pressures – the theme of the Council's 27th Annual Review. The energy and time absorbed by constitutional debate are diverted from this other important challenge.

Au Courant: How do you see the role of the Economic Council in this debate?

Voyer: As an economic research organization with a national mandate, the Council has a duty to provide insight into the economic aspects of this question in order to offer Canadians the information and material they need to make informed decisions.

Au Courant: What are the objectives of your project?

Voyer: The theme of the 28th Annual Review is the changing nature of the economic and fiscal links within Canada in light of the new political and economic realities domestically and internationally. We want to take a close look at the current state of the economic union and fiscal federalism in Canada. We must take into account the financial constraints facing the federal government and changes in world trading patterns. The goal will be to examine some of the salient economic aspects of the debate over the future of Canadian federalism and to point out the various advantages and disadvantages of current fiscal arrangements and of some of the proposed alternatives.

Au Courant: Can you be more specific?

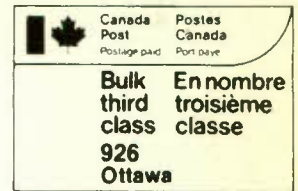
Voyer: For example, we will investigate the evolution of provincial trade patterns with a view to test the hypothesis that growing global interdependence and stronger North-South trading



Jean-Pierre Voyer

linkages are prompting a shift away from interprovincial trade. We will be examining the extent to which commercial activity in each province is controlled by local interests, residents of other provinces, or foreign interests. We will also be looking at the mobility of workers.

On the fiscal side, we will be examining past trends in government spending, making a survey of expenditures by program category and by level of governments over the past 25 years. We will also be looking at some of the key forces that will influence the growth in spending in the future, and how a redistribution of powers is likely to affect the financial situations of the various levels of governments and the economic welfare of their citizens. We will pay particular attention to intergovernmental transfers in the areas of education and health and social security and to the equalization payments system. Another part of the fiscal theme will be the question of tax harmonization: To what extent does tax structure differ from one province to another, and what are the implications for the economic union?



PUBLICATIONS

Council Report

New Faces in the Crowd – Economic and Social Impacts of Immigration (EC22-171/1991E; \$7.95 in Canada; US\$9.55 outside Canada).

The Council's report presents a new and surprising perspective on the economic effects of immigration. Both the benefits and the problems have been greatly exaggerated, says the Council. In particular, per-capita income gains for the host community are very small, and immigrants do not take jobs away from Canadians. The smallness of the economic effects leads the Council to put considerable weight on political, social, and humanitarian considerations in evaluating the right direction for future policy. The social impact of a changing mix of immigration, now that immigrants come increasingly from non-traditional sources (Asia, Africa, and the Caribbean), is extensively analysed. The Council assesses both the greater risks of social friction that this changing mix might entail and the value of the enhanced diversity

associated with it. Weighing all four factors – economic, political, social, and humanitarian – the Council opts for a considerable expansion of immigration but argues that it should be phased in very gradually. It offers a recommendation on how to do this, and 10 others aimed at supporting the harmonious integration of immigrants into the Canadian community.

Working Papers

No. 9 "Thinking intergenerationally," by *Ron Hirshhorn*.

No. 10 "Canadian unemployment in retrospect: 1977-87," by *Miles Corak*.

No. 11 "Degradation of environmental capital and national accounting procedures," by *John M. Hartwick*.

No. 12 "Long-term unemployment: The Canadian experience," by *Syed Sajjadur Rahman* and *Surendra Gera*.

No. 13 "Economic convergence, technology transfer and freer trade," by *Someshwar Rao* and *Sunder Magun*.

No. 14 "Young workers in the service economy," by *Harvey Krahn* and *Graham S. Lowe*.

Papers on Local Development

No. 21 "Mobilizing capital for regional development," by *E. T. Jackson* and *J. Peirce*.

No. 23 "The East Central Economic Development Association: A case study," by *L. Baron* and *M. Cadrin*.

No. 24 "The Winnipeg core area initiative: A case study," by *M. Decter* and *J. Kowall*.

How to order

Research studies and Council reports are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

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